

August 21, 1951

CONTRIBUTION TO STAFF PLANNING PROJECT NO. 26.

TO:

25X1A9a

FROM:

SUBJECT: Trade Embargo against China.

1. If a full-scale war in Korea is resumed, or if the Chinese Communists engage in open warfare against Southeast Asia, we may assume that the political atmosphere of the non-Communist world will be such that, under US leadership, a total Western embargo can be placed on trade and shipping with China. A few countries, such as India and Ceylon, and perhaps Switzerland and Sweden, might refrain from open participation in an embargo. However, these few non-compliers could do little toward negating its over-all effect.

2. Loss to the West. The net effect of an embargo must be measured by estimating the degree of economic loss to the West, the degree of loss to China, and evaluating the difference. With respect to the West, the loss would be negligible in all but a few places. Western imports from China are not essential. Countries which ordinarily have the largest trade with China (although never large for any one country) have already imposed restrictions which greatly reduce such trade. In fact, only in Hong Kong and Japan would there be noticeable consequences. Hong Kong economic activity, already depressed by trade restrictions against China, would decline further. The Community's vulnerability to Communism, both through internal operations and invasion from the mainland, would be heightened. In Japan the loss of Chinese coking coal and iron ore would boost the cost of steel production, which would aggravate domestic inflation and foreign trade problems.

3. Loss to China. The effect on China would not be a decisive factor in limiting Chinese military capabilities. Combined with the drain caused by

the war, however, an embargo would substantially reduce Chinese military capabilities. Unless the Soviet Union were engaged in major campaigns elsewhere, it would have the capability, despite certain stringencies in its economy, of supplying China's essential military requirements, but it is uncertain how much the flow of Soviet supplies to China could be stepped up without creating critical transportation difficulties.

4. Net Effect. On balance, the Chinese economy would lose more than would the Western. It is certain the West stands to lose little (from an economic viewpoint). And while we cannot be certain of the impact on China, it appears that the effectiveness of the Chinese Communist armies would, in time, be reduced as a result of disruption to their industries.